

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF CALIFORNIA**

LYMS, INC.; WENDY YOUNGREN and  
CATHY MEANS, as Successor Trustees Of  
the LYMOS 401(K) Savings Plan,

Plaintiffs,

v.

BRUCE MILLIMAKI and MICHAEL  
EGGERT, Former Trustees of the LYMOS  
401(K) Savings Plan; GARY BERMAN,  
Individually,

Defendants.

CASE NO. 08-CV-1210-GPC-NLS

**MEMORANDUM DECISION  
FOLLOWING TRIAL AND ORDER FOR  
ENTRY OF JUDGMENT**

**I. Introduction**

This case involves an accounting partnership breakup that ended much like a bad divorce, with acrimony, mistrust, and years of litigation. Plaintiffs are LYMS, Inc., the sponsor of an employee pension benefit plan under ERISA (“the Plan”), and Wendy Youngren and Cathy Means, the successor trustees of the Plan and certified accountants. Plaintiffs assert breach of fiduciary claims against the Plan’s former trustees and certified accountants, defendants Bruce Millimaki (“Millimaki”) and Michael Eggert (“Eggert”). Defendant Gary

1 Berman (“Berman”) was the third-party administrator (“TPA”) for the Plan. Robert Lipsey is  
2 a certified accountant who practiced accounting with defendant Millimaki for approximately  
3 15 years at the accounting firm Lipsey Millimaki & Co., LLP. Millimaki was general partner,  
4 officer and director with Lipsey from December 1989 until June 30, 2005.

5 The court conducted a seven-day bench trial from December 3 through December 12,  
6 2012. The undisputed evidence proved a number of mistakes or omissions by each of the  
7 former trustee defendants. The principle issue includes whether the trustees’ mistakes are  
8 breaches of fiduciary duty. If so, then the following issue is whether the breaches were willful  
9 so as to disqualify the trustees from being indemnified under the terms of the Plan. Finally,  
10 the question remains as to the amount of reasonable damages that may have resulted from any  
11 breaches of duty that are not subject to indemnity.

12 Having reviewed the evidence and the arguments of the parties, as presented at trial  
13 and in their written submissions, the Court finds that defendants Millimaki and Eggert  
14 breached fiduciary duties owed to the Plaintiffs; that the breaches caused some, but not all of  
15 the alleged damages; and that Millimaki and Eggert are not entitled to indemnity. The  
16 Plaintiffs are not entitled to declaratory relief because the matter is not ripe for the requested  
17 relief. On the counter-complaint, the Court finds against Millimaki and Eggert with respect to  
18 their claims for indemnity.

19 As to defendant Berman, the Court finds that the breach of contract action is barred by  
20 the statute of limitations but that Berman is liable to plaintiffs for negligence in performing his  
21 duties as TPA. The Court makes the following findings of fact and conclusions of law  
22 pursuant to Rule 52 of the Federal Rules of Civil Procedure.

## 23 **II. Procedural History**

24 The plaintiffs initiated this action on July 7, 2008, alleging violations of the Employee  
25 Retirement Income Security Act (“ERISA”), codified at 29 U.S.C. §§ 1105, 1111 and 1132.  
26 ECF No. 1. They seek damages pursuant to 29 U.S.C. § 1132(a)(2) and equitable relief under  
27 29 U.S.C. § 1132(a)(3). Jurisdiction by this court over the subject matter of this action is  
28 predicated on 28 USC § 1331. This Court has exclusive subject matter jurisdiction over these

1 claims pursuant to 29 U.S.C. §1132(e)(1). In addition, plaintiffs allege state law claims based  
2 on contract and negligence theories.

3 On July 21, 2008, Plaintiffs filed an amended complaint. ECF No. 2. On August 12,  
4 2008, Defendant Berman answered the amended complaint. ECF No. 11. On August 25,  
5 2008, Defendants Millimaki and Eggert answered the amended complaint, and filed a  
6 counterclaim against LYMS, Inc., which alleges causes of action for breach of contract,  
7 indemnity and contribution. ECF No. 12. On September 15, 2008, Plaintiffs answered the  
8 counterclaim. ECF No. 18.

9  
10 On May 8, 2009, Plaintiffs filed a second amended complaint. ECF No. 50. Counts  
11 One and Five are against Millimaki and Eggert and allege causes of action for breach of  
12 fiduciary duty (Count One) and fraud (Count Five). Count Two alleges a breach of fiduciary  
13 duty cause of action against Millimaki. Counts Three and Four are against Berman on causes  
14 of action for breach of contract (Count Three) and negligence (Count Four). On May 14,  
15 2009, Defendant Berman answered the second amended complaint denying the material  
16 allegations in the complaint. ECF No. 49. On June 6, 2009, Defendants Millimaki and Eggert  
17 filed a third party complaint against Robert Lipsey and, shortly thereafter, filed a motion to  
18 dismiss portions of Plaintiffs' second amended complaint. ECF Nos. 56 and 58. On August  
19 25, 2009, the Court granted in part and denied in part Defendants' motion to dismiss portions  
20 of Plaintiffs' second amended complaint, finding that the Plaintiffs' fraud claim (Count Five)  
21 was preempted by ERISA and therefore subject to dismissal pursuant to Federal Rule of Civil  
22 Procedure 12(b)(6). ECF No. 68. On October 15, 2009, Defendants Millimaki and Eggert  
23 answered the second amended complaint. ECF No. 70.

24  
25 On February 1, 2010, Defendants Millimaki and Eggert filed a motion for summary  
26 judgment. ECF No. 81. On March 29, 2010, Robert Lipsey filed a motion to dismiss or  
27 render judgment on the pleadings of the third party complaint. ECF No. 135. On February 22,  
28

2011, the Court denied Defendants' motion for summary judgment, and granted Robert Lipsey's motion for judgment on the pleadings on the third party complaint for indemnification. ECF No. 160.

### **III. Facts**

This dispute arises out of the management of the Plan which is currently referred to as the LYMOS 401(k) Plan, and sponsored by LYMS, LLP. The Plan is a tax-exempt qualified employee pension benefit plan under ERISA. The original predecessor employer of the Plan, Robert Lipsey & Company, LLP, first adopted the Plan as the Robert Lipsey & Company 401(k) Savings Plan, effective October 1, 1991. Pretrial Order Admitted Facts (hereinafter referred to as "Admitted Facts") at ¶ 15, ECF No. 208. The Plan was amended in 1995 to reflect the plan sponsor, Lipsey, Millimaki & Company, Inc. and the plan name of Lipsey, Millimaki & Company, Inc. 401(k) Savings Plan. Plan Amendment 5/24/95, Ex. 16; Resolution 5/24/95, Ex. 17.

#### **A. Creation of Plan**

Robert Lipsey testified regarding the decision to adopt the Plan. The Court finds that he was credible on matters in which he had personal knowledge. He recounted that in 1991, his accounting firm partner Millimaki suggested that their firm should create a 401(K) plan as a good employee benefit. Lipsey had little experience in defined benefit plans and told Millimaki that he did not want responsibility for the Plan and did not want to be a trustee or a fiduciary. Millimaki indicated that he had significant working experience with benefit plans and he was willing to take responsibility. Lipsey testified that both partners understood that Millimaki would be responsible for supervising lower employees regarding administration documents and forwarding documents to the third party administrator. The record shows that Millimaki signed nearly all of the Resolutions for changes in the Plan and Amendments to the Plan on behalf of the employer and in his capacity as trustee. Amendments and Resolutions, Exs. 16-29. In addition, Millimaki signed some forms as the Plan Administrator. 2004 Form 5500, Ex. 30; Participant Withdrawal Form, Ex. 36 at p. 252.

After the decision to create a Plan was made, Millimaki recommended Defendant Gary

1 Berman to Lipsey as the third party administrator (“TPA”) for the Plan. Berman, doing  
2 business as L&S Pension Services, was appointed as TPA, effective October of 1991 when the  
3 Plan was adopted. Admitted Facts at ¶ 28, ECF No. 208. Millimaki arranged for Berman to  
4 work on referrals rather than by the task or the hour. Lipsey agreed to this arrangement. As  
5 TPA for the Plan, Berman prepared and created Plan documents, such as annual accounting  
6 statements, and provided administrative services to the Trustees, the Employer and Plan  
7 Administrator for operation of the Plan. Admitted Facts at ¶¶ 28-31, ECF No. 208. Berman  
8 served as the TPA until he was replaced by Pam Means & Associates sometime prior to July  
9 2006. Admitted Facts at ¶¶ 28-30, ECF No. 208.

10 In October 1991, another accountant at the firm, Rebecca Lures, was designated as co-  
11 trustee and served in this capacity until she left the firm in approximately 1994. Certificate of  
12 Resolution 10/9/91, Ex. 10; Adoption Agreement 10/10/91, Ex. 11. In 1994, an Amended  
13 Adoption Agreement for the Plan was adopted and designated Millimaki as sole trustee of the  
14 Plan and the employer as the Plan Administrator. Adoption Agreement 12/23/94, Ex. 15. The  
15 document was executed on December 23, 1994 by Millimaki as the sole trustee of the plan and  
16 on behalf of the employer Lipsey, Millimaki & Company, Inc.

17 In late 1998, Lipsey and Millimaki asked Eggert to assume the role as a co-trustee.  
18 Eggert testified that he was reluctant to accept responsibility. Lipsey and Millimaki assured  
19 Eggert that his role would be limited as a backup and further that he would be protected under  
20 the indemnity provision in the Plan. After considering the request over the weekend, Eggert  
21 accepted the role as co-trustee and he was designated co-trustee on December 14, 1998. Plan  
22 Amendment 12/14/98, Ex. 19.

23 The Plan provides that absent an appointment of an administrator, the employer is the  
24 plan administrator. Plan § 2.2, Ex. 2. Under the Plan, an administrator’s primary  
25 responsibility is to administer the Plan for the exclusive benefit of the Participants and their  
26 Beneficiaries. Plan § 2.4, Ex. 2. The Administrator is charged with duties and powers,  
27 including “the discretion to determine all questions relating to the eligibility of an Employee to  
28 participate or remain a Participant hereunder and to receive benefits under the Plan,” and “to

1 maintain all necessary records for the administration of the plan.” Plan § 2.4(a) and (e), Ex. 2.

2 The Plan further provides that the employer is empowered to appoint a trustee for the  
3 plan. Plan § 2(a), Ex. 2. Under § 7.2(a) of the Plan, a “trustee has the discretion and authority  
4 to invest, manage and control those Plan assets, except, however, with respect to those assets  
5 which are subject to the investment direction of a Participant...” Plan § 7.2(a), Ex. 2. A  
6 trustee “may refuse to comply with any direction from the participant in the event the Trustee,  
7 in its sole and absolute discretion, deems such direction improper by virtue of applicable law.  
8 The Trustee shall not be responsible or liable for any loss or expense that may result from the  
9 Trustee’s refusal or failure to comply with any direction from the Participant.” Plan § 7.1(d),  
10 Ex. 2. In addition, a Trustee is required to “maintain records of receipts and disbursements  
11 and furnish to the Employer/and/or Administrator for each Plan Year a written annual report  
12 pursuant to Section 7.9.” Plan § 7.1(e), Ex. 2.

#### 13 **B. Millimaki’s Disassociation from the Firm**

14 In December 2004, Millimaki advised Lipsey of his intent to disassociate from the firm  
15 the following year. In approximately May 2005, the firm informed the employees of the  
16 disassociation and permitted employees to choose to stay behind with Lipsey or leave with  
17 Millimaki. Eggert was one of seven employees who left with Millimaki. According to  
18 Millimaki, the acrimony between them began after seven employees elected to follow  
19 Millimaki to his new firm.

20 Berman testified at trial. The Court finds that Berman was generally credible except as  
21 otherwise indicated in the decision. Berman testified that when he learned of the planned  
22 disassociation, he sat down with Lipsey and Millimaki and suggested that they work together  
23 for a smooth transition. Email 5/17/05, Ex. CF. Such a suggested meeting never took place  
24 and no agreement was in place to divide the firm’s work or permit an orderly transition to  
25 successor trustees for the Plan. As a result, a dispute arose almost immediately regarding  
26 Millimaki’s efforts to obtain client files. Lipsey took the position that the firm could not  
27 release files to Millimaki for a period of four years. Following the dispute, on June 17, 2005,  
28 Bruce Millimaki filed a complaint for dissolution of Lipsey Millimaki & Co., LLP, in the

1 California Superior Court. Complaint for Dissolution, Ex. 198. In the state action, LYMS was  
2 represented by the firm Solomon Ward and Robert Lipsey was represented by attorney  
3 William Calderelli.

4 On June 27, 2005, Robert Lipsey changed the company's name from Lipsey Millimaki  
5 & Co., LLP to Lipsey Youngren Means and Sandberg CPAs, LLP ("LYMS") and the Plan was  
6 amended to change the name of the Plan to the "Lipsey Youngren Means & Sandberg CPA's ,  
7 LLP 401(K) Savings Plan." Amendment 6/27/05, Ex. 3. Plaintiffs Cathy Means and Wendy  
8 Youngren were named general partners in the new firm and appointed as successor trustees of  
9 the Plan in place of Eggert and Millimaki. Id. On June 30, 2005, Defendants Millimaki and  
10 Eggert formed a separate company, the Millimaki Eggert firm. After Millimaki Eggert was  
11 formed, Berman established a retirement plan for Millimaki Eggert and acted as third-party  
12 administrator for the newly created plan. Based on the departure of Millimaki and the other  
13 former Lipsey Millimaki employees, a partial termination of the Plan occurred.

#### 14 **C. Post-Disassociation Control of Plan**

15 On July 8, 2005, Eggert directed an email to Berman and Cathy Means, among others,  
16 stating that Millimaki and Eggert were still the only trustees of the Lipsey, Millimaki & Co.  
17 Plan and would remain the sole trustees until all of the assets were transferred to their new  
18 plan. Email 7/8/05, Ex. 73. On July 21, 2005, LYMS provided Millimaki and Eggert written  
19 30-day notice, under § 7.11(b) of the Plan, that that they were terminated as trustees of the  
20 Plan. Notice of Removal, Ex. 112. Based upon service of the notice on July 26, 2005, the  
21 termination date became effective on August 25, 2005. Id. The termination notice also  
22 specified that Millimaki and Eggert were required to return all Plan documents and records and  
23 provide the successor trustees with a final trust accounting of the Plan's assets. Id. Under ¶  
24 7.11(e) of the Plan, a removed trustee is required to prepare a statement of account no later  
25 than the due date of the annual statement. Millimaki and Eggert did not provide a statement of  
26 account.

27 Following their removal as trustees for the Plan, Defendants Millimaki and Eggert  
28 continued to act as Plan trustees by engaging in oversight of the Plan and signing and filing

1 forms for the IRS, including the Form 5500 for the Plan. E.g., Admitted Facts at ¶ 45, ECF  
2 No. 208. As of February 2006, Millimaki and Eggert had yet to authorize the release of Plan  
3 brokerage statements to the Plaintiffs. Charles Schwab Documents, Ex.143. On August 17,  
4 2006, Plaintiffs submitted the necessary paperwork to update the change in Plan name and the  
5 change in Trustees from Millimaki and Eggert to Kathy Means and Wendy Youngren. Letter  
6 to Schwab 8/17/06. Ex. 144.

#### 7 **D. Search for Plan Records**

8 After Millimaki and Eggert refused to relinquish their roles as trustees in August 2005,  
9 the Plaintiffs sought to obtain Plan documents in order to evaluate the status of the Plan and its  
10 compliance with applicable law. Plaintiffs encountered difficulties and challenges in obtaining  
11 Plan documents.

12 On August 22, 2005, in response to a request by Lipsey for an accounting of the Plan,  
13 Berman replied that he would mail a summary of accounts from 1996 through 2004. Email  
14 8/22/05, Ex. 83. Berman further stated that he was unsure if he had all records for the early  
15 years since the Lipsey firm had always provided year-end statements. Id. In an email dated  
16 July 26, 2005, Eggert responded to a request for plan documents from James Grutkowski and  
17 indicated that he understood that LYMS had taken control of Lipsey, Millimaki & Co.  
18 checking accounts, payroll records, and accounting records. Email 7/26/05, Ex. 86A-12.

19 In March 2006, the parties reached a draft settlement agreement in the state court  
20 dissolution action which provided, among other things, for Millimaki and Eggert to turn over  
21 all Plan accounting records and documents obtained in their capacity as trustees and to stop  
22 representing the Plan. Lipsey conditioned his signature of the settlement on receipt of the  
23 requested documents. In April 2006, Millimaki produced a large number of brokerage  
24 statements for the period of 2000 through early 2006. Email 04/09/06 and Brokerage  
25 Statements, Ex. 130. In addition, Berman located and provided to Lipsey most of the  
26 documents from 1996 through 2004 relating to the plan approval, annual administration and  
27 trust accounting. Letter 4/3/06, Ex. G; Letter 3/27/06, Ex. I. Ultimately, Lipsey was not  
28 satisfied that Millimaki and Eggert had provided all Plan documents as promised and refused



1 to enter the settlement. Meanwhile, Millimaki and Eggert testified that they turned over all  
2 documents within their control. In addition, Millimaki testified that a number of Plan  
3 documents were maintained at the Lipsey accounting offices and were unavailable after  
4 Millimaki left the firm.

5 Lipsey testified that when he was unable to retrieve all Plan records, he became  
6 concerned with issues regarding status and ERISA compliance. After the dissolution  
7 settlement agreement failed in March 2006, LYMS and the Plan's Successor Trustees,  
8 Plaintiffs Cathy Means and Wendy Youngren, attempted to evaluate the status of the Plan, its  
9 accounting records, and its compliance with applicable laws and regulations. In March 2006,  
10 LYMS retained Means & Associates headed by Pam Means (no relation to Cathy Means) to  
11 conduct a preliminary document review for the Plan. According to Pam Means' testimony, the  
12 review would ensure that the Plaintiffs had all required documentation to support any 3<sup>rd</sup> party  
13 examination of the Plan and make sure that the plan documents were complete, including all  
14 required amendments. Email 5/5/06, Ex. 96. On April 18, 2006, Means & Associates issued a  
15 preliminary report regarding the Plan. Preliminary Compliance Review Letter, Ex. 46. In the  
16 report, Pam Means identified a number of action items consisting of missing documents. Id.  
17 Among the missing documents were ones regarding a rollover involving a former employee  
18 Mark Schaim (the "Schaim rollover") where a \$470,000 distribution did not match the amount  
19 rolled into the account. Id.

20 On May 11, 2006, Plaintiff Cathy Means emailed Berman to inquire whether he had  
21 had an opportunity to respond to the action items on the list provided by Means & Co. Email  
22 5/17/06, Ex. 97. On May 17, 2006, Berman promised a package with supporting documents or  
23 explanations for the "action" items. Id. On June 6, 2006, Berman emailed Mark Schaim  
24 requesting any documentation for the subject rollover. Email 6/6/06, Ex. 98. On July 6, 2006,  
25 Berman emailed Cathy Means and provided available information for the Schaim rollover and  
26 revealed that he "was never aware of this outside investment until recently." Email 7/6/06, Ex.  
27 101-4.

28 Berman testified at trial that he believed Millimaki had provided him with the Schaim

1 rollover information at the time that it was admitted into the Plan. However, the July 6, 2006  
2 email from Berman to Cathy Means contradicts the testimony and indicates that Millimaki and  
3 Eggert did not provide Berman with the Schaim rollover information at the time that it was  
4 received. Id. Berman also noted in a June 14, 2006 email that his practice was to have the  
5 client review the allocations for a year to ensure the reports contained correct information.  
6 Email 6/24/06, Ex. 113. The Court finds that Millimaki and Eggert failed to provide the  
7 Schaim rollover information to Berman and further failed to properly disclose the transaction  
8 on reporting forms.

9 The evidence shows that Plaintiffs contacted Schaim on July 6, 2006 in order to  
10 reconstruct the records regarding the rollover. Email 7/13/06, Ex. 118. Lipsey observed that  
11 the records were needed in order to determine whether the rollover was proper from the  
12 inception. Id.

### 13 **E. Schaim Rollover and Investments**

14 Following numerous efforts to locate Schaim rollover documents, Plaintiffs obtained a  
15 number of records that Pam Means reviewed to evaluate the Schaim transactions. On August  
16 4, 2006, Pam Means reported a number of problems, inconsistencies and omissions regarding  
17 the Schaim transactions. Email 8/4/06, Ex. 106. The available records revealed that in  
18 January 2000, Mark Schaim, formerly associated with Soloman Schaim & Remmes, joined  
19 Lipsey, Millimaki & Co. Mark Schaim was employed by Lipsey Millimaki & Co. from 2000  
20 until 2004. In 2001, Schaim took a \$342,714 distribution from the Soloman Schaim &  
21 Remmes 401k plan. Approximately \$187,666 of that Schaim distribution from the Soloman  
22 Schaim & Remmes 401k plan was rolled into the Plan.

23 Thereafter, on June 27, 2002, Eggert signed a subscription agreement for a \$100,000  
24 investment in the Judd and Dillard Otay, LP, real estate investment on behalf of the Plan, for  
25 the benefit of (FBO) Mark Schaim. Subscription Agreement, Ex. 168. Both Millimaki and  
26 Eggert authorized the transfer of funds into the Judd and Dillard Otay account. Letter of  
27 Authorization, Ex. 162. This investment was not reported on the Plan's 2002 IRS Form 5500.  
28 2002 Form 5500, Ex. 183. The Judd and Dillard Otay, LP real estate investment was re-sold

1 on or about July 15, 2003 for \$17,000,000 with a taxable gain of \$9,450,005. 2003 Form  
2 1065, Ex.168-9. From the gain, \$251,641 was distributed to the Plan, FBO Mark Schaim.  
3 2003 Sch. K, Ex. 168-10. The IRS Form 5500 for Plan Year 2003 filed on the Plan's behalf  
4 does not list any limited partnership interest, nor did it include the taxable gain on this sale  
5 attributable to Schaim's LP interest in the amount of \$159,726.00. 2003 Form 5500, Ex. 184.

6 On October 31, 2003, Millimaki signed a subscription agreement for a \$250,000  
7 investment in Judd and Dillard 310, LLC real estate investment on behalf of the Plan, FBO  
8 Mark Schaim. Subscription Agreement and Transfer Authorization, Ex. 168-13. Millimaki  
9 wire transferred \$250,000 from the Plan's FBO Mark Schaim account at Charles Schwab to  
10 Judd and Dillard 310, LLC based on an authorization signed by both Millimaki and Eggert.  
11 Id. The IRS Form 5500 later filed on behalf of Plan for 2003 did not list any membership  
12 investment in a LLC. 2003 Form 5500, Ex. 184. The Judd and Dillard 310, LLC offering  
13 materials stated that the entity would raise investor capital and borrow up to \$7.5 million from  
14 lenders to finance a real estate purchase, and that the business plan was to hold the property for  
15 as short a period as possible and resell it.

16 In June 2004, Schaim left Lipsey Millimaki & Co. to form Schaim Hyde & Co. In  
17 January 2005, Schaim changed the name of investment in Judd and Dillard 310, LLC, from  
18 Lipsey Millimaki & Co. 401k Plan, FBO Mark Schaim, to Schaim Hyde & Co. 401k Plan,  
19 FBO Mark Schaim. Subsequently, the Plan issued an IRS Form 1099R for tax year 2005 to  
20 Mark Schaim, reporting a \$474,808 distribution from the Plan to Schaim (as a roll-over to  
21 Schaim Hyde & Co 401k Plan).

22 Alex Brucker, the Plaintiffs' expert regarding the fiduciary duty issues before the  
23 Court, opined that questions remain as to whether the Schaim rollover investments in real  
24 estate are subject to unrelated business tax under § 511 of the Internal Revenue Code. Brucker  
25 Report at pp. 11-12, Ex. 192.

26 The Court finds that Millimaki and Eggert accepted the Schaim rollover without  
27 adequate inquiry or analysis of the unrelated business taxable income issues related to the  
28 rollover investments. In addition, Millimaki and Eggert failed to provide material information

1 regarding the Schaim rollover to the TPA. Finally, the legal issues relating to the Schaim  
 2 rollover are significant and have the potential of resulting in enforcement actions against the  
 3 Plan by the Internal Revenue Service.

4 ///

#### 5 **F. VCP**

6 On June 8, 2006, Means & Associates Co. issued a Fiduciary Compliance report to  
 7 LYMS that detailed problems and operational failures with the Plan. Fiduciary Compliance  
 8 Review letter, Ex. 45. Thereafter, Plaintiffs engaged Means & Associates, and Branton &  
 9 Wilson, attorneys, as consultants and legal advisors to assess the plan and to pursue a  
 10 voluntary correction program (“VCP”) for submission to the IRS. The VCP, as part of the  
 11 Internal Revenue Service Employee Plans Compliance Resolution System (“EPCRS”), is  
 12 designed to permit Plan Sponsors to self-correct plan documents and plan operational errors  
 13 and maintain tax favored status.

14 LYMS and the Successor Trustees of the Plan worked with their ERISA consultants  
 15 and attorneys to finalize and file a VCP submission to the Internal Revenue Service (“IRS”).  
 16 Plaintiffs’ testimony revealed that the VCP submission was a difficult, time-consuming task.  
 17 The VCP submission was made on October 11, 2006. VCP cover letter and exhibits, Ex. 36.  
 18 Plaintiffs paid \$1,300 in fees to the IRS for the VCP. Admitted Facts at ¶ 58, ECF No. 208.

19 After review of the VCP submission, the IRS issued a Compliance Statement dated  
 20 September 28, 2007. VCP Compliance Statement 9/29/07, Ex. 61. The Compliance  
 21 Statement (favorable determination) conditioned the ongoing tax-qualification of the Plan  
 22 upon a complete restatement of the Plan documents as well as the completion of certain  
 23 corrective actions, and identified a number of problems, including violations of a number of  
 24 provisions of the Internal Revenue Code, as well as the terms of the Plan itself, *viz.*:

- 25 (a) Failing to provide documents correctly identifying the proper Employer under the Plan
- 26 (See EGTRRA Amendment, Ex. 26, Post-EGTRRA Amendment, Ex. 29);
- 27 (b) Allowing ineligible employees – including Millimaki’s wife – to participate in the
- 28 Plan;

- (c) Failing to meet contribution testing requirements governing highly compensated employees in all five years tested (1997 through 2001), resulting in excess contributions totaling \$22,220.80 for the years in question, and requiring the Company to make an additional contribution in that amount for its non-highly compensated employees within 150 days of receipt of the IRS Compliance Statement; and
- (d) Allowing plan participants to exceed maximum income deferral levels for the years 1996 through 2001. Admitted Facts at ¶ 53, ECF No. 208.

As a result of the VCP submission, in addition to the corrections proposed in the original submission, the Employer was required to contribute \$22,220.80 for the years in question for its non-highly compensated employees for the ADP failures within 150 days of the VCP. Admitted Facts at ¶ 54, ECF 208. As previously stated Plaintiffs also paid a \$1,300 fee to the IRS in connection with the VCP submission. Admitted Facts at ¶ 58, ECF No. 208.

The VCP Compliance Statement did not directly address the “Schaim Transaction,” but provided that the Compliance Statement does not constitute a determination that the Plan was not “a party to an abusive tax avoidance transaction.” VCP Compliance Statement, Ex. 61. Lipsey testified that he understood that based on the qualifying language, the IRS left open possible disqualification of the Plan.

#### **IV. Discussion**

##### **A. First Cause of Action (ERISA)**

In an ERISA action under 29 U.S.C. §§ 1132(a)(2) and 1132(a)(3), relief is provided under 29 U.S.C. §1109(a), which states:

Any person who is a fiduciary with respect to a plan who breaches any of the responsibilities, obligations, or duties imposed upon fiduciaries by this subchapter shall be personally liable to make good to such plan any losses to the plan resulting from each such breach, and to restore to such plan any profits of such fiduciary which have been made through use of assets of the plan by the fiduciary, and shall be subject to such other equitable or remedial relief as the court may deem appropriate, including removal of such fiduciary. A fiduciary may also be removed for a violation of section 1111 of this title.

ERISA imposes high standards of fiduciary duty upon those responsible for

1 administering an ERISA plan, including prudent management of the plan's assets and  
 2 defraying reasonable expenses of administering the plan. 29 U.S.C. § 1104(a)(1) and (2);  
 3 Eaves v. Penn., 587 F.2d 453 (10th Cir. 1978). To state a claim for breach of fiduciary duty  
 4 under ERISA, Plaintiffs must establish that (1) Defendants were Plan fiduciaries, (2)  
 5 Defendants breached their fiduciary duties, and (3) the breach caused harm to the Plaintiffs.  
 6 Brosted v. Unum Life Ins. Co., 421 F.3d 459, 465 (7th Cir. 2005) (citing Kamler v. H/N  
 7 Telecomm. Serv., Inc., 305 F.3d 672, 681 (7th Cir. 2002)).

### 8 **1. Defendants Millimaki and Eggert Were Plan Fiduciaries.**

9 Plaintiffs claim that Millimaki and Eggert were fiduciaries as a result of their position  
 10 as trustees and their actions as functional administrators. Millimaki and Eggert counter that  
 11 they were simply trustees and did not function as administrators for the Plan. The Court finds  
 12 that Millimaki and Eggert were fiduciaries in their capacity as trustees and functional  
 13 administrators in their approval of the Schaim rollover into the Plan. In addition, Millimaki  
 14 was a functional administrator in the management of the Plan.

15 Each employee benefit plan subject to ERISA must identify a "named fiduciary"  
 16 directly in the plan document or through a procedure established and set forth in the plan  
 17 document. 29 U.S.C. § 1102(a). The person who is named fiduciary is a fiduciary for all  
 18 purposes of the plan whereas a person who is a fiduciary solely as a result of the functions  
 19 performed is a fiduciary only to the extent that it satisfies the designated functional  
 20 requirement. See Gelardi v. Pertec Computer Corp., 761 F.2d 1323 (9th Cir. 1985) (although  
 21 employer was a fiduciary with respect to appointment of plan administrator, it was not  
 22 fiduciary with respect to actual administration of plan); Brandt v. Grounds, 687 F.2d 895 (7th  
 23 Cir. 1982) (fiduciary status only to the extent it rendered investment advice, because person  
 24 was not named a fiduciary). The mere existence of physical control or the performance of  
 25 mechanical administrative tasks generally is insufficient to confer fiduciary status. Gomez-  
Gonzalez v. Rural Opportunities, Inc. 626 F.3d 654 (1st Cir. 2010).

26 Under ERISA, a functional analysis is required to determine fiduciary status. The three  
 27 functional tests required to determine a person's fiduciary status include: (1) the exercise of  
 28 any discretionary authority or discretionary control with respect to the management of the plan

1 or its assets; (2) having the authority, responsibility, or actually rendering investment advice  
2 for a fee or other compensation, direct or indirect, with respect to any monies or other property  
3 of such plan; or (3) having any discretionary authority or discretionary responsibility in the  
4 administration of the plan. 29 U.S.C. § 1002(21)(A). Whether someone is an ERISA  
5 fiduciary is a factually intensive determination. Steen v. John Hancock Life Ins. Co., 106 F.3d  
6 904, 913 (9th Cir. 1997).

7 In Kenseth v. Dean Health Plan, Inc., 610 F.3d 452 (7th Cir. 2010), the Court held that  
8 an ERISA health insurance plan administrator was a fiduciary when it possessed discretion to  
9 construe and apply provisions of the plan and authority to assess a participant's entitlement to  
10 benefits. Similarly, in Smith v. Medical Benefit Administrators Group, Inc. 639 F.3d 277 (7th  
11 Cir. 2011), the Court found that a third-party medical claims administrator for an employer's  
12 health plan breached its fiduciary duty in denying a participant's claim because it had the  
13 power to grant or deny a participant's claim for health insurance benefits. Meanwhile, in  
14 Arakelian v. National Western Life Insurance Company, 680 F.Supp.400 (D.D.C. 1987), the  
15 Court found that trustees under a plan were not fiduciaries as far as certain investment  
16 decisions where the plan instrument did not accord the trustees any discretionary authority  
17 related to the type of required investments.

18 In this case, the plan instrument provides that absent an appointment of an  
19 administrator, the employer is the plan administrator. Plan § 2.2, Ex. 2. Under the Plan, the  
20 administrator is charged with duties and powers, including "the discretion to determine all  
21 questions relating to the eligibility of an Employee to participate or remain a Participant  
22 hereunder and to receive benefits under the Plan," and "to maintain all necessary records for  
23 the administration of the plan." Plan §§ 2.4(a) and (e), Ex. 2. The Court finds that Millimaki  
24 and Eggert were not expressly appointed administrators under the Plan and that, as a starting  
25 point, the employer was the administrator under the Plan.

26 The Plan provides that the employer is empowered to appoint a trustee for the plan.  
27 Plan § 2(a), Ex. 2. From the commencement of the Plan in 1991, Millimaki was a named  
28 trustee of the Plan, and also responsible for the management and supervision of the Plan on  
behalf of the Employer/Sponsor. After joining Lipsey, Millimaki & Company, Defendant



1 Eggert was appointed a co-trustee of the Plan in December of 1998. Under Plan § 7.1(e), a  
2 Trustee is required to “maintain records of receipts and disbursements and furnish to the  
3 Employer/and/or Administrator for each Plan Year a written annual report pursuant to Section  
4 7.9.” A trustee “may refuse to comply with any direction from the participant in the event the  
5 Trustee, in its sole and absolute discretion, deems such direction improper by virtue of  
6 applicable law. The Trustee shall not be responsible or liable for any loss or expense that may  
7 result from the Trustee’s refusal or failure to comply with any direction from the Participant.”  
8 Plan § 7.1(d), Ex. 2.

9 As trustees of the Plan, Defendants Millimaki and Eggert were responsible for  
10 maintaining records of receipts and disbursements, and furnishing annual reports. In addition  
11 to these trustee obligations, Millimaki and Eggert approved and signed documents relating to  
12 the Schaim rollover and investments. Millimaki and Eggert had the discretion to reject the  
13 Schaim rollover transaction. In determining the eligibility of the Schaim rollover, Millimaki  
14 and Eggert acted as functional administrators in making a determination on the eligibility of  
15 the Schaim rollover. In so doing, they owed a fiduciary duty to the Plan and its members.

16 In the case of Millimaki, he was also a functional administrator for the Plan in its day-  
17 to-day operations, including the approval of participants, investments, and contributions.  
18 Millimaki assumed this responsibility in administering it on behalf of the employer. Millimaki  
19 was the driving force behind the creation of the Plan and assured Lipsey that he was  
20 experienced in overseeing benefit plans and prepared to ensure that the Plan operated properly.  
21 Millimaki located Berman to be the third party administrator and arranged for work referrals in  
22 lieu of compensation arrangement. From the inception of the Plan through 2005, Millimaki  
23 communicated directly with the TPA and plan participants; exerted discretionary authority by  
24 authorizing the Schaim rollover and related transactions; signed the original Plan documents,  
25 amendments and resolutions, and executed a Form 5500 under oath as plan administrator and  
26 plan sponsor. See Amendments and Resolutions, Exs. 16-29; 2004 Form 5500, Ex. 30.

27 In short, given the level of involvement in creating and maintaining the Plan and  
28 exercising key decisions regarding the Plan, Millimaki’s actions establish a fiduciary duty  
under ERISA as a functional administrator. The Court finds that Millimaki acted in his



1 capacity as functional administrator in allowing an ineligible employee to participate in the  
 2 Plan, approving plan participants to exceed maximum income deferral levels for the years  
 3 1996 through 2001, approving Plan documents which misidentified the participating employer,  
 4 and failing to maintain all necessary records for the administration of the Plan.

## 5 **2. Defendants breached their fiduciary duties.**

6 As fiduciaries, Defendants Millimaki and Eggert owed the plan and the beneficiaries  
 7 duties of trust, loyalty and due care. The law utilizes a prudent person standard, and requires  
 8 the fiduciary to act with the care, skill, prudence, and diligence under the circumstances. 29  
 9 U.S.C. §1104(a)(1)(B). As a co-trustee, Eggert had a duty to monitor the conduct of another  
 10 trustee and intervene if he suspected improprieties. Pension Ben. Guar. Corp. v. Greene, 570  
 11 F. Supp. 1483, 1487 (W.D.Pa.1983) (trustee resignation valid only when he has made adequate  
 12 provision for continued prudent management of assets).

13 In this case, Millimaki and Eggert jointly breached their fiduciary duties by (1)  
 14 permitting the Schaim rollover to be admitted into the Plan without proper review by the TPA;  
 15 (2) refusing to step down as trustee following removal by the Plan, and (3) delaying the  
 16 production of available records and documents.

### 17 **a. Schaim Rollover**

18 Defendants Millimaki and Eggert failed to act with care, prudence and diligence in  
 19 their capacity as trustees and functional fiduciaries in dealing with the Schaim rollover. The  
 20 evidence shows that both Millimaki and Eggert approved the rollover into the Plan and  
 21 disbursements from the Plan. Under § 7.1 of the Plan, a trustee has discretion to reject outside  
 22 investments if inconsistent with the law. Millimaki was advised to consult with an attorney  
 23 regarding tax consequences of participating in the investment and acknowledged that as a  
 24 subscriber would look solely to his advisors with respect to the investment. Subscription  
 25 Agreement and Wire Transfer Authorization at §§ 4(r) and (s), Ex.168-13. The Court finds  
 26 that Millimaki or Eggert failed to provide TPA Berman with any documentation of the Schaim  
 27 investment prior to the rollover so that the TPA could determine the eligibility of the rollover  
 28 and report the acceptance of the rollover. Given these facts, Millimaki and Eggert cannot rely  
 on the advice of the TPA regarding their failure to investigate possible unrelated business

1 income created by the Schaim transactions. As a result of the breaches of fiduciary duty, the  
2 Plan was required to conduct an investigation to obtain necessary supporting documentation,  
3 and conduct a review of the Schaim transactions.

4  
5 **b. Failure to Step Aside as Trustees**

6 The evidence shows that on July 8, 2005 Eggert emailed Cathy Means, Berman and  
7 broker Bob LaCoix and advised them that Millimaki and Eggert were the only trustees and  
8 would remain such until all of their assets were transferred out of plan. Email 7/8/05, Ex. 73.  
9 On July 21, 2005, Millimaki and Eggert were replaced as trustees under the terms of the Plan  
10 effective August 25, 2005. Notice of Removal, Ex. 112. In spite of their replacement,  
11 Millimaki and Eggert denied the successor trustees' access to brokerage statements and  
12 continued to act on behalf of the Plan. However, no express or implied provision in the Plan  
13 allowed for a holdover. Accordingly, Millimaki and Eggert's refusal to relinquish control was  
14 without legal authority. The unjustified holdover demonstrates a lack of diligence, care and  
15 prudence and constitutes a breach of fiduciary duty owed by Millimaki and Eggert. The  
16 trustees' refusal to step aside delayed the turnover of available brokerage statements and a  
17 review of the Plan's compliance with applicable laws. The delay contributed to the need for  
18 Plaintiffs to take investigative steps to obtain Plan documents.

19 **c. Delay in Providing Available Records**

20 Millimaki and Eggert were required to turn over any Plan documents after they were  
21 removed as trustees in August 2005. They failed to produce the documents, despite the fact  
22 that they had access and control to those documents at the time. Undoubtedly, the conflict  
23 created by the ongoing state court litigation prevented any cooperation between the parties.  
24 The evidence further showed that there was no centralized repository for Plan records.  
25 Instead, Plan documents were scattered between the Millimaki, Eggert, Berman, investment  
26 brokers, and the Plan sponsor. The undisputed evidence shows that as of March 2006,  
27 Millimaki and Eggert were negotiating the return of Plan documents. The Court finds that the  
28 failure to turn over available documents in August 2005 constitutes a breach of fiduciary duty.

1 In addition to failing to produce documents that they maintained and controlled, the  
2 Court finds that Millimaki and Eggert failed to maintain records relating to the Schaim  
3 rollover. In making this finding, the Court rejects Plaintiffs' claim that the Schaim records  
4 were withheld to conceal any information of Plan mismanagement. However, the withholding  
5 was willful and without legal justification.

6 **d. Ineligible participants and excessive maximum income deferral**  
7 **levels**

8 As a functional administrator responsible for the administration and application of the  
9 Plan, Millimaki was required to act prudently in the administration of the Plan. Plaintiffs  
10 contend that Millimaki breached his fiduciary duty by approving the errors that required the  
11 VCP. The question is whether Plaintiffs have shown that Millimaki deviated from the  
12 standard of care in monitoring the TPA, and approving the complained of actions. This  
13 requires a review of the complained of actions or omissions.

14 **i. Approval of documents misidentifying the proper Employer**

15 On January 8, 2001, the Plan was amended to add a new participating employer  
16 effective January 1, 2000, Lipsey, Millimaki & Co. CPAs LLP ("LM Partnership").  
17 Thereafter, on February 18, 2002, the Plan was amended to comply with changes in the  
18 applicable law. The adoption agreement failed to identify LM Partnership, as an adopting or  
19 participating employer. Berman acknowledged that it was error to exclude the LM Partnership  
20 and that the effect of the error was to delete the LM partnership from the Plan. Millimaki  
21 signed a number of documents that evidenced this error. See EGTRRA Amendment, Ex.26;  
22 Post-EGTRRA Amendment, Ex. 29.

23 The Court finds that Millimaki deviated from the applicable standard of care in failing  
24 to recognize this basic error. Millimaki, as a partner in the LM Partnership and trustee for the  
25 Plan, was aware of the information which would have alerted him that the misidentification of  
26 the participating employer had occurred. There was no justification in permitting the adoption  
27 agreement and amendments to make this error.

28 While the error may be dismissed by the defendants as inconsequential, the IRS has

1 taken the position that any errors in the operation of a plan or form of plan documentation, no  
2 matter how insubstantial or innocent the mistake is, may result in plan disqualification. IRS  
3 Field Serv. Adv. 1999-636.

4 **ii. Allowing ineligible employees to participate in the Plan**

5 The Plan provided for service eligibility requirements of one year. In this case, Linda  
6 Millimaki, Bruce Millimaki's wife, was allowed to participate in the Plan prior to the one year  
7 period in violation of the Plan. Millimaki signed the Plan documents which established the  
8 one year eligibility, and was married to the early participant. The Court finds that Millimaki  
9 approved this error in his capacity as functional administrator and that it constitutes a breach of  
10 fiduciary duty as the functional administrator.

11 **iii. Failing to meet contribution testing requirements**

12 The Plaintiffs allege that Millimaki breached his fiduciary duty by failing to correct  
13 errors made by Berman in contribution testing. A breach of fiduciary duty does not utilize  
14 strict liability principles. Mistakes in the contribution testing does not automatically equate to  
15 a breach of fiduciary duty. There is no evidence as to how and why Millimaki failed to use  
16 reasonable prudence under the circumstances. Cf., Howard v. Shay, 100 F.3d 1484 (9th Cir.  
17 1996) (fiduciary agreed in advance to rely on valuation report without careful review of the  
18 report); Christensen v. Qwest Pension Plan, 462 F.3d 913, 917-918 (8th Cir. 2006); 29 CFR §  
19 2509.75-8. The Court finds that Millimaki reasonably relied on Berman's work in performing  
20 the contribution testing and that there was no reason for Millimaki to challenge Berman's  
21 work at the time of the testing. Accordingly, Millimaki did not breach his fiduciary duty as  
22 functional administrator in regards to the failure to meet contribution testing requirements.

23 **iv. Allowing plan participants to exceed maximum income deferral**  
24 **levels**

25 As in the case of contribution testing errors, the Court finds insufficient evidence to  
26 establish that Millimaki should have taken additional steps to determine if participants had  
27 exceeded maximum income deferral levels. Plaintiffs have not pointed to evidence that would  
28 have alerted Millimaki to the need for a second opinion on the income deferral levels.

**e. Remaining Claimed Breaches of Fiduciary Duty**

In addition to the aforementioned alleged breach of fiduciary duties, Plaintiffs argue that Millimaki breached his fiduciary duty to the Plan based on his hiring of Berman as a third-party administrator without a contract and with an alleged conflict. However, the evidence shows that Lipsey agreed to Berman being retained without a contract on a referral basis. The Court finds that Millimaki's actions in suggesting Berman as TPA and the compensation arrangement did not constitute a breach of fiduciary duty.

Plaintiffs also allege that Millimaki and Berman breached their fiduciary duties by failing to maintain error and omissions insurance for the benefit of the plan and participants. The Court finds that the Plaintiffs have failed to prove that Millimaki and Eggert had the duty under the Plan or under ERISA law to obtain insurance.

**B. Second Cause of Action (ERISA)**

Plaintiffs seek further relief against Millimaki as the Administrator under 29 U.S.C. §1132(a)(3), which provides:

A civil action may be brought...(3) by a participant, beneficiary, or fiduciary (A) to enjoin any act or practice which violates any provision of this title or the terms of the plan, or (B) to obtain other appropriate equitable relief (i) to redress such violations or (ii) to enforce any provisions of this title or the terms of the plan.

In Varity Corp. v. Howe, 516 U.S. 489, 515 (1996), the Supreme Court held that 29 U.S.C. §1132(a)(3) authorizes ERISA beneficiaries to bring lawsuits for “ ‘appropriate’ equitable relief” for breach of fiduciary obligations, where ERISA does not “elsewhere provide [] adequate relief for a beneficiary’s injury.” Id. It is expected “that courts, in fashioning ‘appropriate’ equitable relief, will keep in mind the special nature and purpose of employee benefit plans.” Id. Section 1132(a)(3) is “a ‘catchall provision, which provides relief only for injuries that are not otherwise adequately provided for.” Forsyth v. Humana, Inc., 114 F.3d 1467, 1474 (9th Cir. 1997) (citing Varity Corp., 516 U.S. at 512.)

Plaintiffs seek declaratory judgment against Defendants in the event an IRS audit or other investigation arises from the Schaim Transaction. Plaintiffs request that Defendants

1 must indemnify the Plan, successor trustees and the Employer for all costs they incur due to  
2 audits by IRS, Franchise Tax Board (California) or United States Department of Labor, and in  
3 which the Plan is proposed to be either disqualified, subjected to UBIT or other taxes,  
4 penalties and interest, or any other adverse actions which actions relate to all plan years from  
5 inception until June 30, 2006, the date that defendants no longer retained (unauthorized)  
6 control over the plan records. Plaintiffs point to the IRS favorable determination letter  
7 regarding the VCP submission, in which the IRS found that the proposed remedies were  
8 appropriate for the several identified failures. In finding the plan compliant, the IRS further  
9 stated that it “does not express an opinion as to the accuracy or acceptability of any  
10 calculations or other material submitted with the application. In no event may this compliance  
11 statement be relied on for the purpose of concluding that the Plan or Plan Sponsor was not a  
12 party to an abusive tax avoidance transaction.” Ex. 61. Plaintiffs interpret this language as  
13 indicative of a potential future IRS audit to investigate the Schaim transaction, and that the  
14 audit could lead to a negative finding that would put the entire retirement plan at risk. Relief  
15 in the form of a declaration, Plaintiffs contend, is needed to indemnify the plan participants  
16 from any negative IRS findings as a result of the Defendants’ mismanagement of the plan.

17 The Court finds that this claim is unripe for adjudication. “A claim is not ripe for  
18 adjudication if it rests upon contingent future events that may not occur as anticipated, or  
19 indeed may not occur at all.” Texas v. United States, 523 U.S. 296, 300 (1998) (quoting  
20 Thomas v. Union Carbide Agric. Prods. Co., 473 U.S. 568, 580–81 (1985)). Ripeness  
21 “requir[es] us to evaluate both the fitness of the issues for judicial decision and the hardship to  
22 the parties of withholding court consideration.” Abbott Laboratories v. Gardner, 387 U.S. 136,  
23 149 (1967). As to the fitness of the issues, there has been little evidence presented that would  
24 lead the Court to believe that an IRS audit would ever take place. The fact that the IRS  
25 declined to make a determination as to whether certain transactions constituted abusive tax  
26 avoidance does not mean that the IRS will make that determination in the future. The IRS sent  
27 the compliance letter in September 2007, and there has been no indication that the IRS intends  
28 to follow up on the plan failures. Even if an IRS audit were to take place, Plaintiffs presented  
insufficient evidence that would lead the Court to believe that a negative finding would cause

1 harm to the plan or plan beneficiaries. Although the Court has found that Millimaki's failures  
 2 resulted in a breach of his fiduciary duties as an Administrator, the relief sought by Plaintiffs  
 3 regarding the potential harm to the plan is too speculative. Furthermore, Plaintiffs will not  
 4 suffer undue hardship without the relief of a declaration at this time. Given that there is no  
 5 current harm, there is no hardship. Plaintiffs may seek relief at the appropriate time – that is, if  
 6 an IRS audit occurs and causes harm to the plan or plan beneficiaries. At this point, the Court  
 7 declines to provide Plaintiffs with the relief of a declaratory statement for a speculative claim  
 8 that relies upon future events that may or may not occur.

### 9 **C. Third Cause of Action (Breach of Contract)**

10 Plaintiffs assert that Berman breached a contractual obligation owed to the Plaintiffs.  
 11 Plaintiffs acknowledge a contract between the Plan and Berman was never memorialized. The  
 12 Plaintiffs failed to establish the terms of the contract. The most recent alleged defect in the  
 13 claim for breach of contract is for the 2005 Plan year and occurred prior to June 2006. The  
 14 complaint was filed on July 7, 2008.

15 The California Code of Civil Procedure § 339 applies in this action and provides a two-  
 16 year statute of limitations. The Court finds that any contract based claim is barred by the  
 17 California statute of limitations.

### 18 **D. Fourth Cause of Action (Negligence)**

19 State tort law applies to claims against Berman for his role as third party plan  
 20 administrator. Negligence claims in California require that Plaintiffs prove that Berman owed  
 21 a legal duty to Plaintiffs, that he breached that duty, that Plaintiffs were injured, and damages  
 22 were proximately caused. Hoyem v. Manhattan Beach City School District (1978) 22 Cal. 3d  
 23 507, 513; Berkley v. Dowds (2007) 152 Cal. App. 4th 518, 526. Under California law, a  
 24 professional is required to make reasonable use of his superior knowledge, skills and  
 25 experience within his area of expertise. KPFF v. California Union Ins. Co. 56 Cal. App. 4th  
 26 963, 974 (1997).

27 Plaintiffs contend that Berman was negligent in three ways: (1) maintaining incomplete  
 28 records, (2) filing erroneous information returns with the IRS for most years, and (3)  
 participating in questionable rollover transactions. Berman does not dispute that he committed



1 errors that resulted in the preparation and filing of a VCP. Berman contends that Plaintiffs  
2 failed to prove that any errors breached a duty owed to the Plaintiffs. Berman also contests the  
3 need for the VCP and the amount of damages that are claimed for any breach of duty.

4 Plaintiffs failed to prove the existence of a standard of care requiring the maintenance  
5 of Plan documents and failed to prove that Berman breached a duty to maintain Plan  
6 documents. Plaintiffs also failed to prove that Berman was responsible for any failures  
7 involving the Schaim rollover transactions. The evidence shows that Millimaki and Eggert  
8 failed to provide Berman the Schaim transaction documents in a timely manner.

9 The evidence offered at trial proves that Berman was negligent in providing plan  
10 document services, plan testing services, and assistance with respect to ensuring compliance  
11 with plan limits, and assistance with determination of eligibility. Report of Nicholas White at  
12 34-36, Ex. DE. The Court finds that Berman was negligent as follows:

- 13 (a) Improperly deleting Lipsey, Millimaki & Company as a participating employer  
14 and plan sponsor;
- 15 (b) Allowing ineligible employees – including Millimaki’s wife – to participate in  
16 the Plan;
- 17 (c) Failing to meet contribution testing requirements governing highly  
18 compensated employees in all five years tested (1997 through 2001), resulting in  
19 excess contributions totaling \$22,220.80 for the years in question; and
- 20 (d) Allowing plan participants to exceed maximum income deferral levels for the  
21 years 1996 through 2001.

22 Unlike Millimaki and Eggert, there is no evidence that Berman ever delayed the  
23 production of information or documents that were required in order to evaluate the Plan’s  
24 compliance with all tax laws. Instead, following the receipt of available Plan documents, it  
25 was learned that Berman had committed a number of errors. Although the errors did not  
26 prompt the initial review of the Plan, the Court finds that Berman’s errors articulated above  
27 did require a VCP, and his failures resulted in significant damages to the Plan and the  
28 Plaintiffs.



## 1 E. CAUSATION AND DAMAGES

2 As previously held, the Court finds that Plaintiffs have proved that Defendants  
 3 Millimaki and Eggert breached certain fiduciary duties, and that Berman was negligent in  
 4 performing his duties as TPA. Plaintiffs must also prove loss causation as part of the claim for  
 5 breach of fiduciary duty. DeFazio v. Hollister, 2012 WL 1158870 at 31 (E.D. Cal. 2012)<sup>1</sup>  
 6 (“To seek damages under § 1132(a)(2) and (a)(3), plaintiffs generally have the burden of  
 7 proving the harm caused by defendants’ breaches of their fiduciary duties by a preponderance  
 8 of the evidence.”) Id. (citing CIGNA Corp. v. Amara, 131 S.Ct. 1866, 1881 (internal citations  
 9 omitted)); see also, e.g., Kuper v. Iovenko, 66 F.3d 1447, 1459 (6th Cir. 1995) (“a plaintiff  
 10 must show a causal link between the [breach] and the harm suffered to the plan”); Friend v.  
 11 Sanwa Bank Cal., 35 F.3d 466 (9th Cir. 1994) (“ERISA holds a trustee liable for a breach of  
 12 fiduciary duty only to the extent that losses to the plan result from the breach”). Furthermore,  
 13 Plaintiffs must prove that Berman’s negligence caused the alleged damages. Berkley v.  
 14 Dowds, 152 Cal. App. 4th 518, 528 (2007) (Plaintiff must “allege facts, albeit as succinctly as  
 15 possible, explaining how the conduct caused or contributed to the injury”) (quoting Bockrath  
 16 v. Aldrich Chemical Co. 21 Cal. 4th 71, 78–79 (1999)). Where ERISA liability is established  
 17 against two or more defendants, liability will be joint and several. Katsaros v. Cody, 568 F.  
 18 Supp. 360 (E.D. N.Y. 1983), aff’d, 744 F.2d 270 (2d Cir. 1984).

19 Plaintiffs claim \$275,425.41 for fees and expenses as damages arising from  
 20 Defendants’ breaches of fiduciary duty and negligence. The Court finds that Plaintiffs have  
 21 proved Defendants caused some, but not all, of the alleged damages.

### 22 i. Damages related to locating and reviewing Plan documents

23 The fees requested fall into one of two categories (1) fees relating to locating and  
 24 reviewing Plan documents, and (2) charges to prepare, process and conclude the VCP. The  
 25 Court finds that both fiduciaries Millimaki and Eggert are jointly and severally liable for fees  
 26 for Means & Associates to locate and review documents. Berman is not responsible for these  
 27 fees. These document retrieval fees were clearly necessitated by Millimaki and Eggert’s

28 <sup>1</sup> Discussions in the DeFazio v. Hollister case regarding the availability of equitable relief is distinguishable because in this case such request was not pled and is not ripe for adjudication.

1 breaches of fiduciary duty in their refusal to provide available records in August 2005; refusal  
 2 to provide the new trustees access to brokerage statements; failure to properly evaluate and  
 3 account for the Schaim rollover transactions; and refusal to step aside as trustees. The Court  
 4 recognizes that ongoing litigation contributed to some of the delays and the contentious  
 5 positions of the parties, but did not otherwise excuse Millimaki and Eggert for their delays and  
 6 failures.

7 Millimaki and Eggert are liable for the following fees charged by Means & Associates:  
 8 inventory of Plan documents, document analysis for compliance problems, preparation of  
 9 letters and attendance at meetings regarding missing documents, addressing fiduciary duty  
 10 issues and rollover errors, and taking steps to change trustees' names on participant-directed  
 11 accounts. The Court has thoroughly reviewed the Pam Means & Associates Co. itemized  
 12 billing statements, and a review shows that these expenses total \$16,307.50. Means & Assoc.  
 13 Invoices at L-676 to L-680, Ex. 47. As such, Millimaki and Eggert are jointly and severally  
 14 liable for this amount in damages.

#### 15 **ii. Damages related to the VCP**

16 The VCP identified and the IRS confirmed four failures in the Plan that required  
 17 corrective action. VCP Compliance Statement 9/29/07, Ex. 61. Millimaki, as functional  
 18 administrator, caused two of the four failures, and Berman, as TPA, caused all four. Eggert,  
 19 on the other hand, was not responsible for any of the four failures and is not liable for fees  
 20 associated with the preparation of the VCP. While Millimaki was not responsible for all four  
 21 failures in the Plan, Millimaki and Berman are both liable for fees related to the preparation  
 22 and processing of a VCP. Once a breach of trust is established, uncertainties in fixing  
 23 damages will be resolved against the breaching fiduciary. See Leigh v. Engle, 727 F.2d 113,  
 24 138 (7th Cir. 1984); James F. Jordan et al, *Handbook on ERISA Litigation* § 3.05(c), at 1-114  
 25 (1992). Millimaki's breaches of fiduciary duty as a functional administrator required the filing  
 26 of a VCP to protect the eligibility of the Plan. As a result of Millimaki's and Berman's  
 27 failures, Plaintiffs incurred significant fees and damages to prepare and submit the VCP to the  
 28 IRS. The Court finds that Millimaki and Berman are liable for the VCP-related damages as a  
 result.

1           Upon review of the fees incurred as a result of the VCP, the Court finds that Plaintiffs  
 2 are entitled the amounts billed by Means & Associates that relate to the VCP. This amount  
 3 totals \$21,186.70. Means & Assoc. Invoices at L-681 to L-685, Ex. 47. Similarly, Plaintiffs  
 4 are entitled to recover \$375 from Millimaki for legal fees paid to Thanasi Prevolos, Esq. for  
 5 assessment of legal compliance. Prevolos & Associates Invoice, Ex. 50. Plaintiffs are further  
 6 entitled to recovery of the \$1,300 compliance fee to file the VCP to the IRS.

7           **iii. Damages related to legal fees**

8           Millimaki's breaches of fiduciary duty and Berman's negligence required a majority of  
 9 the legal fees charged by Branton & Wilson APC from June 16, 2006 through September  
 10 2007, which were related to the VCP. However, the Plaintiffs are not entitled to Branton &  
 11 Wilson attorney fees following the favorable determination letter issued by the IRS after  
 12 submission of the VCP. 09/28/07 IRS Determination Letter, Ex. 63. As to the pre-September  
 13 2007 attorney fees, Plaintiffs have provided sufficient detailed billing for \$45,557 in attorney  
 14 fees, which relate to the preparation and processing of the VCP. Branton & Wilson Slip  
 15 Billing, Ex. 65.<sup>2</sup> Accordingly, Millimaki and Berman are held to be liable for this amount.

16           The Court finds that Plaintiffs have failed to prove that attorney fees charged by  
 17 Solomon Ward constitute damages resulting from any negligence or breach of fiduciary duty.  
 18 A review of the invoices show that the fees are for litigating the state dissolution action,  
 19 attempting to settle the state court action, and reviewing the pleadings in the instant action.  
 20 While the settlement negotiations in the state case addressed, among other things, the  
 21 production of Plan documents, there were far more efficient means to seek production of the  
 22 documents through discovery. Meanwhile, any requested attorney fees that relate to the VCP  
 23 are duplicative of the attorney fees charged by Branton & Wilson for work on the VCP and  
 24 have not been shown to have been necessary in preparing or processing the VCP.

25  
 26 <sup>2</sup> The Court finds that the following identified fees are recoverable: Slip ID Nos. 291, 294,  
 27 296, 298, 303, 312, 314, 364, 429, 437, 446, 448, 460, 509, 510, 515, 518, 524, 555-558, 560,  
 28 562, 572, 576, 590, 610, 614, 616, 622, 638, 646, 647, 650, 937, 972, 973, 976, 1043, 1054,  
 1067, 1105, 1108, 1113, 1179, 1180, 1204, 1206, 1208, 1305, 1316, 1340, 1342, 1349, 1432,  
 1580.

Plaintiffs have similarly failed to prove that attorney fees for Mazzarella Calderelli LLP were caused by any breach of fiduciary duty or other failure. These fees primarily relate to the state court dissolution proceedings, and as such Plaintiffs are not entitled to relief.

**iv. Damages related to additional contributions to bring the Plan into compliance**

Plaintiffs have alleged damages in the amount of \$22,220.80 in additional 401(k) contributions required to bring the Plan into compliance. Plaintiffs incurred these costs as a result of Berman's mistake of allowing plan participants to exceed their maximum contributions the Plan. As previously discussed, Berman as TPA failed to meet the proper standard of care, and his negligence caused Plaintiffs to incur this expense to bring the Plan into compliance. Accordingly, the Court finds Berman solely liable for the amount of \$22,220.80.

In sum, Plaintiffs are entitled to damages totaling \$106,947.00 as follows:

<b>Damages</b>	<b>Defendants Liable for Damages</b>
\$16,307.50 <i>Means doc. inventory fees</i>	Millimaki & Eggert (joint and several liability)
\$21,186.70 <i>Means VCP-related fees</i>	Millimaki & Berman <sup>3</sup>
\$1,300.00 <i>IRS compliance fee</i>	Millimaki & Berman
\$375.00 <i>Prevolos legal fee</i>	Millimaki & Berman
\$45,557.00 <i>Branton &amp; Wilson fees</i>	Millimaki & Berman
\$22,220.80 <i>Add'l compliance fees</i>	Berman alone
Total Damages:	\$106,947.00

**F. Indemnification under the plan.**

Pursuant to an indemnification provision of the Plan, Defendants Millimaki and Eggert assert that the Plan employer, LYMS, Inc., is obligated to indemnify and hold Defendants harmless against any and all claims, losses, damages, expenses, and liabilities they incurred in

<sup>3</sup> The Court will set out in the judgment, after briefing, whether the liability for the VCP related damages, including attorney and accounting fees, is joint and several.

1 the exercise and performance of their powers and duties while acting as Trustees of the Plan.  
 2 Under §7.13 of the Plan, “The Employer agrees to indemnify and hold harmless the Trustee  
 3 against any and all claims, losses, damages, expenses and liabilities the Trustee may incur in  
 4 the exercise and performance of the Trustee's powers and duties hereunder, unless the same are  
 5 determined to be due to gross negligence or willful misconduct.”

6 The Court finds that the Defendants are not entitled to indemnification. Both  
 7 Millimaki and Eggert were grossly negligent in failing to obtain and/or forward the Schaim  
 8 documents to the TPA. These failures prevented a review of the Schaim transactions by  
 9 Berman, the TPA, to determine whether they were permitted and proper, and required an  
 10 accounting for the rollover and profits in filed forms. Plaintiffs were required to initiate a  
 11 review of the Plan due to potential serious consequences, including disqualification, which  
 12 could be imposed for permitting an unqualified rollover into the Plan. In addition, the  
 13 deliberate refusal to relinquish duties as trustee constitutes willful misconduct that disqualifies  
 14 the Defendants from being indemnified for damages that were proximately caused by the  
 15 refusal.

16 As to damages relating to the preparation of the VCP and bringing the Plan into  
 17 compliance, these damages were caused by actions taken by Millimaki as a functional  
 18 administrator and therefore are not subject to indemnification.

#### 19 **G. Attorneys’ fees and costs**

20 Under 29 U.S.C. § 1132(g), this Court may award attorneys’ fees and costs upon  
 21 application by Plaintiffs following entry of these Findings of Fact and Conclusions of Law.  
 22 Cambless v. Masters, Mates & Pilots Pension Plan, 815 F.2d 869 (2d Cir. 1987). The Court  
 23 directs the parties to address whether attorney fees are appropriate in this case and, if so, in  
 24 what amount.

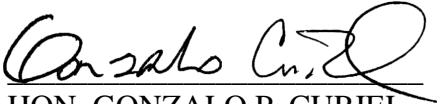
#### 25 **H. CONCLUSION**

26 Based on the above findings of fact and conclusions of law, the Court rules in favor of  
 27 the Plaintiffs. The Counter-complaint is dismissed with prejudice. In accordance with the  
 28 Court’s findings, Plaintiffs are directed to prepare a proposed judgment on or before **Tuesday,  
 April 2, 2013**. By the same date, each Party, except Eggert, shall submit to the Court a brief

1 that addresses the issue of joint and several liability for the VCP related damages awarded  
2 herein.

3 **IT IS SO ORDERED.**

4 DATED: March 19, 2013

5   
6 HON. GONZALO P. CURIEL  
7 United States District Judge  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28